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CRC

CALIFORNIA REINVESTMENT COMMITTEE

January 7, 1999

Office of the Fiscal Assistant Secretary
U.S. Department of Treasury, Rm 2112
1500 Pennsylvania Avenue, N.W.
Washington D.C. 20220

Dear Mr. Hammond:

The California Reinvestment Committee (CRC) appreciates this opportunity to respond to the Advanced Notice of Proposed Rule Making published at 64 Red. Reg. 1149-1152 (January 8, 1999). CRC is a statewide non-profit membership organization of almost 200 non-profits and public agencies. CRC advocates to expand bank access to low income communities and communities of color.

As Treasury has acknowledged, there are millions of recipients of federal benefits that do not have an account at a financial institution. There are numerous reasons why consumers don't have such accounts: cultural and language barriers, geographic barriers, or disability, literacy, and financial hardships. Many of these recipients use check cashers as their primary source of banking. Payment service providers such as check cashers charge high fees and do not provide the consumer protections as other mainstream financial institutions do.

CRC commends Treasury for prohibiting check cashers from offering Electronic Transfer Accounts (ETAs). CRC further applauds Treasury for recognizing the potential problems arising from arrangements between federally insured financial institutions and payment service providers to allow recipients access to federal benefits through payments service providers such as check cashers. CRC urges Treasury to prohibit such arrangements between federally insured financial institutions and payment service providers as they pertain to electronic funds transfer.

Payment service providers should be prohibited from providing access to federal benefits because of the exorbitant rates they charge for financial services. Check cashers in California charge an annual percentage rate of almost 400% for a loan. A Consumer Federation of America study found that the annual cost of cashing a $320 weekly paycheck at check cashing centers is $374.50, with a range from $160 to $960.

Several of these check cashers are facing lawsuits from consumer advocates. For instance, the Legal Aid Society of Milwaukee has filed a class-action lawsuit against a national check cashing company called National Cash Advance of Cleveland, Tenessee according to a December 23, 1998 article in the Journal Sentinel written by Tom Held. The suit "attacks National Cash Advance…for

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allegedly taking advantage of poor consumers who have little alternative in the traditional lending markets."

By allowing check cashers to provide access to federal funds, Treasury will not only condone but stimulate the abusive practices of check cashers. While a recipient will go to the check casher to receive her federal benefits, she may also become a potential customer for numerous other abusive transactions. One particularly abusive product that payment services providers offer is a "payday loan." A pay day loan is a small, short-term loan made by check cashers at extremely high interest rates. This service is extremely deceptive because while consumers think they are entering a one-time arrangement, these payday loans serve as catalyst for debt acquisition. According to a January 12, 1999 article in American City Business Journals, industry studies show that the average customer makes 11 transactions a year, which shows that once people take an advance, they put themselves behind for quite some time.

The above arguments detail the high cost and low consumer protections provided by payment services providers. This directly violates the Debt Collection Improvement Act of 1996, which requires that the Treasury Department ensure that individuals receiving electronic payments have accounts at reasonable cost and with the same consumer protections as other account holders at depository institutions.

Other reasons why Treasury should prohibit payment services providers from offering any kind of access to federal benefits are the disproportionate effects on low-income communities and communities of color. For instance, according to U.S. Treasury data, as detailed in an article by Mark Anderson in the Sacramento Business Journal, January 11, 1999, the mean income of recipients without bank accounts is $14,000 while recipients with an account have a mean income of $26,000. Given the comparatively high cost of payment service providers relative to federally insured financial institutions, this fee structure is inherently regressive. Low-income individuals pay the high fees of payment service providers while others have access to lower fees offered at federally insured financial institutions.

Several studies have also shown that check cashers already dominate in minority neighborhoods. Minority communities have access to high-cost payment service providers while others have access to federally insured financial institutions. For instance, the Woodstock Institute found that check cashers outnumber banks by ratios higher than 10 to 1 in lower income, minority communities.

For these reasons, payment service providers should be prohibited from going into arrangements with federally insured financial institutions. These arrangements both deny the recipient access to benefits at a reasonable cost and do not provide the same consumer protections with respect to the account as other account holders at the financial institution.

While CRC does realize that many areas have few banking institutions and thus rely on payment service providers to access funds, Treasury should not encourage the abusive

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and discriminating practices of such payment service providers. In areas where access to federally insured financial institutions who offer ETAs is limited, Treasury should explore arrangements between federally insured financial institutions and community agents such as Post Offices, senior citizen or community centers. These arrangements should offer the full consumer protections and reasonable costs associated with the ETA. It is time that low income recipients and recipients of color who remain unbanked have equal access to mainstream financial services.

Sincerely,

Alan Fisher

Alan Fisher
Executive Director